

# PUBLIC NOTICE

## **Final Public Notice for FFY 2017 DSH Program**

The South Carolina Department of Health and Human Services (SCDHHS), pursuant to the requirements of Section 1902(a)(13)(A) of the Social Security Act, gives notice of the following actions regarding its methods and standards for establishing Medicaid Disproportionate Share Hospital (DSH) payments to qualifying DSH hospitals, for updating the SC defined rural hospital criteria and related cost settlement recovery percentages, for updating the swing bed hospital rates, and for updating the SC Department of Mental Health long term psychiatric hospital rates under the State Plan under Title XIX of the Social Security Act Medical Assistance Program (Medicaid).

Effective for payments provided for the DSH allotment period which ends on September 30, 2017 which will begin October 1, 2016, SCDHHS will amend the South Carolina Title XIX reimbursement methodology for Medicaid DSH payments as follows:

- The agency will update the base year used to calculate the interim DSH payments for the DSH allotment period which ends on September 30, 2017 (FFY 2017) using hospital fiscal year end 2015 data, the continued use of the December 19, 2008 Final Rule (Federal Register / Vol. 73, No. 245) relating to the audits of the Medicaid DSH Payment Plans, and the December 3, 2014 Final Rule (Federal Register / Vol. 79, No. 232) which relates to the Medicaid Program DSH Payments Uninsured Definition.
- The agency, in lieu of using the SC Medicaid fee for service inpatient and outpatient hospital cost to charge ratios to estimate uninsured and Medicaid Managed Care unreimbursed inpatient and outpatient hospital costs, will calculate inpatient and outpatient hospital cost to charge ratios specific to the patient populations (i.e. uninsured and Medicaid managed care) to determine the costs of these DSH eligible cost pools.
- The agency will update the inflation rate used to trend the DSH base year cost to the end of the 2015 calendar year.
- As requested by several commenters last year, the agency will eliminate the \$8.7 million DSH payment reduction criteria and resulting DSH payment redistribution process during the FFY 2017 DSH payment period.
- The agency expects to expend one hundred percent of its FFY 2017 Medicaid DSH allotment to qualifying DSH eligible hospitals by September 30, 2018.
- The agency will continue to apply a normalization adjustment to the hospital specific DSH limits of those DSH hospitals impacted by the July 1, 2014 and October 1, 2015 Medicaid fee for service state plan amendments which normalized Medicaid inpatient hospital per discharge rates and outpatient hospital multipliers. This action will reduce the hospital specific DSH limits of the impacted DSH hospitals.

- In accordance with Budget Proviso #33.21 (C) of the State Fiscal Year (SFY) 2016/2017 South Carolina State Appropriations Act, the agency will create a separate DSH pool from the existing FFY 2017 DSH allotment that will be spread among the South Carolina defined rural hospitals as will be defined in Attachment 4.19-A of the SC Medicaid State Plan to include hospitals in persistent poverty counties as defined in recent federal law. This DSH pool may reimburse SC defined rural hospitals up to 100% of their DSH eligible unreimbursed costs. The following classes of SC defined rural hospitals will receive the following percentages of DSH eligible unreimbursed costs:
  - ✓ Hospitals designated as SC defined rural hospitals prior to October 1, 2014 will receive 100% of their DSH eligible unreimbursed cost;
  - ✓ SC hospitals designated as rural hospitals by the SC Medicaid Program for the first time effective on and after October 1, 2014 will receive 90% of their DSH eligible unreimbursed cost and;
  - ✓ Effective October 1, 2016, the SC defined rural hospital criteria will be amended to include a hospital that is located within a “persistent poverty county” as defined in P.L. 112-74 that is not otherwise eligible for higher reimbursement. A hospital that qualifies under this criterion will receive 80% of its DSH eligible unreimbursed cost.
- In accordance with Budget Proviso 33.21 (A) of the SFY 2016/2017 South Carolina State Appropriations Act, the agency will tie DSH payments to participation in the Healthy Outcomes Initiative and may expand the program as DSH funding is available.
- In accordance with Budget Proviso 33.27 (B) of the SFY 2016/2017 South Carolina State Appropriations Act, the agency will provide funding opportunities relating to agency defined financially distressed hospitals referenced in the FFY 2015 DSH state plan amendment from the creation of a new Transformation Pool which will not exceed \$20 million (total dollars). This funding will be derived from the FFY 2017 DSH allotment, and as defined in the proviso, may also be used to improve access to certain services in communities affected by recent hospital closures.

The SCDHHS will also make the following changes to the inpatient and outpatient hospital payment methodology effective on or after October 1, 2016:

- The agency will update the swing bed rates based upon the updated October 1, 2016 nursing facility payment rates.
- The agency will update the South Carolina Department of Mental Health’s (SCDMH) long term per diem psychiatric hospital rates based upon the hospital fiscal year end June 30, 2015 cost reporting period trended forward to the payment period.
- The agency will update the SC defined rural hospital criteria as well as modify the allowable retrospective cost settlement percentages for inpatient and outpatient hospital reimbursement to ensure that at a minimum the tiered DSH rural hospitals reimbursement will coincide with the allowable DSH recovery percentages specified above (i.e. 100%, 90%, and 80%) subject to previous normalization actions. If interim Medicaid reimbursement exceeds allowable Medicaid costs at the tiered percentage, then no additional payment will be made by the SCDHHS. However, should interim reimbursement exceed 100% of Medicaid inpatient or outpatient allowable costs, then SCDHHS will recover the excess.

SCDHHS will implement the first seven bullets in order to calculate the FFY 2017 DSH payments based upon the most recent cost reporting period data available (HFY 2015) and Medicaid DSH allotment

available. SCDHHS will implement bullets eight and nine in order to increase accountability and transparency of funds reimbursed to hospitals under the SC Medicaid DSH Program, improve outcomes for the uninsured population, and to help qualifying hospitals identified in a Target Hospital Community to transition to a more sustainable model of service delivery that meet the needs of their community and reduce reliance on inpatient admissions, surgery, or high-tech diagnostics. The SCDHHS will implement bullet ten in order to update the swing bed rate based upon the annual rebasing of nursing facility rates. The SCDHHS will implement bullet eleven in order to update the SCDMH long term psychiatric hospital rates based upon more current cost report data. The SCDHHS will implement bullet twelve in order to update the SC defined rural hospital criteria to include hospitals in persistent poverty counties as defined in Public Law 112-74 and adjust their retrospective cost settlement percentages accordingly.

Since the FFY 2017 DSH allotments have not been made available to the states as of the date of this notice, no budget estimate can be determined on DSH. However, the SCDHHS will ensure that annual DSH expenditures for FFY 2017 will not exceed the annual DSH allotment amount. It is anticipated that based upon the remaining actions, inpatient hospital expenditures will increase by approximately \$875,000 (total dollars).

Copies of this notice are available at each County Department of Health and Human Services Office and at [www.scdhhs.gov](http://www.scdhhs.gov) for public review. Additional information concerning these actions is available upon request at the address cited below.

Any written comments submitted may be reviewed by the public at the SCDHHS, Division of Acute Care Reimbursements, Room 1209, 1801 Main Street, Columbia, South Carolina, Monday through Friday between the hours of 9:00 A.M. and 5:00 P.M.

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